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(Proceedings commenced at 9:30 a.m.)
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              THE COURT: Good morning.
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              THE BAILIFF: Please be seated.
              Court is now in session.
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              THE CLERK: Good morning, Judge.
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               THE COURT: Good morning.
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               THE CLERK: Let me call number -- well, I'll just
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   call them together and then you can select how you want to go
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   and in what order --
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               THE COURT: Okay.
               THE CLERK: -- 2, 3, 4, and 5, Tri-State Paper,
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    Inc. Chapter 7 small business plan; motion to allow claims;
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13
    an adversary matter; and a status hearing.
               THE COURT: Okay. Everybody here on Tri-State, I
14
   assume?
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          (No verbal response)
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               THE COURT: All right. Let's get appearances.
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               Mr. Assad?
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               MR. ASSAD: Michael Assad for the debtor, Your
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   Honor.
               THE COURT: Uh-huh.
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               MR. LADOV: Good morning, Your Honor. Joshua
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    Ladov on behalf of creditor, Penn Jersey Paper Company.
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               MS. LEVY: Jill Levy on behalf of Penn Jersey
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    Paper Company.
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THE COURT: Okay. All right.

So what I'd like to do is the obvious, which is to take the motion to allow the late claim first, because I think if we do that first, it makes the first most sense.

So, Mr. Ladov, why don't you -- I assume you're going to make the argument, so...

MS. LEVY: No, that would be me, Your Honor.

THE COURT: Oh, I'm so sorry, Ms. Levy.

MS. LEVY: Well, that's okay.

THE COURT: Feel free. Jump in.

MS. LEVY: Okay. So Penn Jersey's motion to have the late-filed proof of claim is governed by Bankruptcy Rule 9006(b)(1) and according to 9006(b)(1), the Court is permitted to allow late-filed claims if they're the result of excusable neglect and the determination of excusable neglect is an equitable one.

And that equitable determination takes various factors and considerations, which include balancing the interests of both the parties, the prejudice to the debtor, length of delay, and the impact to judicial proceedings. And it's our position that all of these equitable factors weigh in favor of allowing the claim. There's no prejudice to the debtor. According to the debtor's own liquidation analysis, there are ample funds to be distributed to the creditors at a hundred percent and, really, there's no reason for Penn

Jersey to not be able to participate in the distribution of the proceeds of the estate.

The analysis discloses that there's approximately \$1.7 million to be distributed to the unsecured creditors and the allowed claims at this point are only \$436,000, which is going to leave \$1.3 million in the estate and a claim of 70,000 -- 71,000 is all that Penn Jersey has.

The proof of claim was filed only 30 days -- 34 days late and, you know, Penn Jersey did not file the claim late in bad faith.

As far as the proceedings, the creditors have until March 20th to vote on the plan. The confirmation hearing is not scheduled until March 27th. So clearly there's no delay in the proceedings here.

And by contrast, by not allowing Penn Jersey to have its claim, there's -- it's a big detriment to Penn Jersey. It's 70,000 -- \$71,000 worth of goods that were sold to the debtor that the debtor received and accepted, but never paid for. The debtor almost concedes, or pretty much does concede that it owes the money, because it scheduled Penn Jersey's claim on its schedules at \$70,872.99, although it was scheduled erroneously as "unliquidated," because it is liquidated.

Penn Jersey's proof of claim establishes that that's the precise amount that's owed, which is supported by

Penn Jersey's statement of the account and the invoices submitted to the debtor, which were attached to the proof of claim.

And by disallowing the claim, all that will happen is Penn Jersey is going to have to forfeit, rather than preserve its right to payment. And the goal of a Chapter 11 is, you know, for rehabilitation and to pay the creditors what they're owed, or as much as they can get in the bankruptcy.

The debtor's objection focuses solely on the neglect part. It doesn't address any of the equitable considerations. And, of course, you know, the position is that it was inexcusable. But according to -- there's a case, it's Pioneer Investment Services Company v Brunswick
Associates Limited Partnership. The Supreme Court of the United States specifically stated that neglect encompasses quote, "common omissions caused by carelessness."

Because this was not filed in bad faith, it's not delaying anything. There's no prejudice to the debtor, and the only party that would be hurt by not allowing the claim is Penn Jersey. We'd request that the proof of claim be deemed filed timely.

THE COURT: Okay. Mr. Assad?

MR. ASSAD: Thank you, Your Honor.

First, I would just note that this Court has

already, in this case, thrown out a proof of claim because it was not timely filed. Beyond, I would say Penn Jersey did have proper notice of the bankruptcy case, as it concedes. It received several notices about the bar date and other issues in this case. It had several reminders, you know, that the case was happening. It admits that it received the proof of claim and gave it to its lawyer to file. Its lawyer didn't file it.

But a proof of claim, the Rules do not require an attorney to file a proof of claim. Of course everybody prefers that they hire a lawyer, because that's why we're here, but the proof of claim process is designed that if a creditor receives a proof of claim, it can file it if it wants to. Now, it also has the right to file -- to hire an attorney, but that's not necessary.

So Penn Jersey could have filed its own claim itself upon receiving the notice, which it did not. It apparently sent the notice to its attorney. There's nothing in the papers that have been filed that Penn Jersey confirmed receipt with its attorney and that's a major thing.

The response does not focus on any of the <u>Pioneer</u> elements beyond whether the -- beyond the neglect because it's not necessary to; none of those elements matter unless the Court can find that the kind of neglect that took place was within the movant's reasonable control, which it was. It

was. It could have filed a proof of claim itself. It didn't. It could have made sure that its attorney filed the claim before the deadline and it didn't.

And it's not a procedural gotcha, but it's something to make sure that this process moves as smoothly as possible because, although, according to the liquidation analysis and our belief, there are going to be funds available, we don't really know until property is sold and there's a lot of "what ifs?" And this Court could open a can of worms by allowing this claim because there are other unscheduled -- there are other scheduled claims that were not filed.

And as the debtor's response indicated, the debtor scheduled a lot of claims both, as unliquidated and unknown because it wanted to make sure every creditor has notice of the bankruptcy, had the opportunity to present proof of their claim, to make sure that every creditor was paid fairly and paid correctly. And there's nothing here that prevented Penn Jersey from participating in the process.

THE COURT: Okay. Did you want to respond?

MS. LEVY: All right. I just want to address a couple of things. First of all, as far as the "within reasonable control," that is not the only factor. All of those factors are supposed to be taken into consideration, all the equitable factors that I discussed previously.

This case is not in the process of -- it's not -the plan hasn't even been confirmed. The creditors haven't
even voted. And as Mr. Assad said, the Rules don't require a
proof of claim to be filed. If this claim had been listed
properly as "liquidated," which it is, we wouldn't even be
here because would not have to file -- have filed it.

The number is identical. It's based on documentary evidence. And there's nothing equitable that would disallow this claim.

THE COURT: Well, let me ask you to address what Mr. Assad is arguing, which is I don't even get to the equitable factors because I have to find excusable neglect first.

MS. LEVY: Well, that's not how I was reading this case at all. The way I read it is that that is part of the analysis and that the excusable neglect is only -- it's only part of it. It's all of the equitable factors.

And this is a Court of equity and the equitable thing to do would be to allow this claim, and we're so early in the process of the bankruptcy.

THE COURT: Okay.

MR. LADOV: Your Honor, may I add one thing,

please?

THE COURT: Yes.

MR. LADOV: We're talking about the neglect of

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Penn Jersey Paper Company. And I'd like to make an offer of proof and I'm happy to give testimony if the Court would like to hear it. The offer of proof is this: I've been representing Penn Jersey Paper Company for approximately 20 years. Our relationship is a very solid one based on a foundation of trust during those 20 years. This has never 6 once happened while -- during my representation of Penn Jersey Paper Company. I have not missed a deadline, period, 9 ever in 20 years.

So, was Penn Jersey, was it excusable for them to expect that I would have properly represented their interests, as I have for the 20 years prior by timely filing a proof of claim when they sent an email to me about it? I submit that it is.

> Mr. Assad? THE COURT: Okay.

MR. ASSAD: Your Honor, I just want to clarify one thing. What I said during my remarks was that a proof of claim is not required to be filed by an attorney.

Upon review of the schedules and the orders specifying the process, the proof of claim did need to be filed because it was marked -- because the claim was marked "unliquidated" on the schedules.

With respect to whether it was reasonable for Penn Jersey to believe, without verification, that its proof of claim was filed, there was a president of the United States

who was well-known for saying, "trust, but verify." We all trust our fiduciaries, but we also have to verify that they are, reasonably verify that they are acting within the way that they're intended to, expected to.

And just because they sent off this email to their attorney saying that the proof of claim needed to be filed doesn't absolve them of the responsibility to check to make sure, even if in the course of representation over 25 years there had never been a mistake made. It's still a responsibility that they had. They still were the ones who received the initial notice and knew of the deadlines and they had a responsibility, as well.

THE COURT: And what do you say to the argument that excusable neglect is just one of many factors that I have to consider, rather than the other way around, which is it's the only factor and if I don't find excusable neglect, I never get to the others?

MR. ASSAD: Well, this specific element, I think in question with respect to that is whether the neglect — whether the reason for the delay was within the movant's reasonable control. So, did Penn Jersey have reasonable control of the situation? Could Penn Jersey have verified that the claim was filed? Could Penn Jersey have verified that the notice was received? Could Penn Jersey have verified that all of the documentation needed for the claim

was received?

Reasonable control is the, I think, necessary element that determines in this case whether there was excusable neglect. And I don't believe that anything that's been proffered here today or in the papers shows that they didn't have reasonable control over the situation.

THE COURT: Okay. Anything further?

MS. LEVY: May I address one more?

THE COURT: Yes.

MS. LEVY: Okay. Just because I -- debtor's counsel is saying that the proof of claim had to be filed because it was listed as "disputed." I get what the plan says, but the fact is, it is not -- it was checked off as "unliquidated." It is not unliquidated; it is a contract issue, which they are typically considered liquidated. And just because the debtor says that it's liquidated doesn't make it such and the Court has the ability to reconsider the way it was described in the schedules.

My position is that it is absolutely not unliquidated. A proof of claim didn't need to be filed and we -- again, if it had been listed properly as it is, as "liquidated," we wouldn't even be sitting here.

THE COURT: Well, and that may be true. The problem is that in Chapter 11, as you know, if a claim is listed as "disputed" or "unliquidated," it's not considered

an allowed claim. So that's what gives you the duty, then, to file a proof of claim, which is why a bar date gets set, et cetera.

The problem is, for me, that I believe you got notice, so you knew that there was a bar date. I presume in that, you also know from that, that the claim, whether you believe it was liquidated or not, the way that it's listed in the schedules is certainly something that you have access to at that point to determine whether or not a proof of claim needs to be filed in order for you to get a distribution.

I think that that's a typical duty of a creditor to be able to determine whether or not they have to file a proof of claim when they get notice, and I guess my problem is the fact that you have agreed that you, yes, you did know about the bankruptcy, you did get the notices, whether or not you believed that you had to file a proof of claim, I find troubling to say or to believe that you thought you didn't have to file one because your claim was liquidated.

I'm not sure that that's what you're saying, I'm
just --

MS. LEVY: That's not what I'm saying.

THE COURT: Okay.

MS. LEVY: I'm just making the point that had it not been listed as "unliquidated," we wouldn't be --

THE COURT: Understood.

MS. LEVY: -- having this issue. And the Court does have the discretion to take a look at the way claims are listed to determine if that is actually what it is. And my position is that it's not.

THE COURT: Okay.

MS. LEVY: Thank you.

THE COURT: Anything further? You don't have to.

I was just asking if you had anything further.

MR. ASSAD: Oh, I would just note at the meeting of creditors and at the status conference before the Court in this matter, there was never a concern raised either, by the Court or by the Office of the United States Trustee or the Subchapter V Trustee or any other creditors about the manner in which claims were listed on the schedules.

THE COURT: Okay. Well, given the arguments of the parties, and I have read everything and I understand both parties' positions with regard to this, and though I understand that it will be difficult for Penn Jersey, given that it is a \$70,000 claim, my decision is based on what I believe Pioneer stands for, which is excusable neglect is not something that is present here. I think that certainly there's neglect. I just don't know that it's excusable, given the notice that was given.

Given the status of the case, I believe there was probably more than one notice that was given, so to the

and I know -- I think last time we spoke, that this was a

THE COURT:

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creditor that was difficult to get anything from. I think that was part of the problem, right?

MR. ASSAD: Yes, Your Honor.

THE COURT: And I guess my issue is, a notice of dismissal is generally okay if an answer is not filed. I have a hard time with that in this case because the letter to me admitting that they owe the money, et cetera, to me seems to be an answer.

So what I would prefer, and I know it's going to be difficult for you, is that you do a consensual dismissal, because I think that's the proper way to dispose of this, given that it was -- well, partly because of the answer and the rule, plus I think that given that it was paid, I don't know that dismissal without prejudice is the right way to go, given that it was paid. So not to make your life more difficult, but I prefer that a consent to dismiss be filed with their signature --

MR. ASSAD: Okay.

THE COURT: -- and then I'm happy to close it out.

 $$\operatorname{MR}.\ \operatorname{ASSAD}:\ I$$ understand the Court's position and I will do my best to do that.

Would the Court consider ordering the Plaintiff to file such a document within 30 days and the penalty for not doing so being dismissal with prejudice so that if I can't get all those people on the same page to sign everything, the

MR. ASSAD: And as the complaint alludes to, the debtor is trying, and has succeeded, in determining the identity of people who participated in a check-washing scheme against it. And through the testimony of one of the initial Defendants who has now been dismissed --

THE COURT: Uh-huh.

MR. ASSAD: -- the Court would -- the Court, I'm sorry -- the Plaintiff was able to determine the identity of one of the Defendants. The Court has issued a summons, which the Plaintiff will serve today. And the Plaintiff is continuing to research the documents that it's obtaining through discovery to find the identity of the other people involved.

And as discussed at the meeting of creditors and the status conference and various other times in this case, there's been — there are suspicions that people involved in the debtor's management in the past stole from the debtor and it's believe that this scheme may be related to that. And so this case is very, very important to the underlying case, to the bankruptcy case, because the debtor believes that if it can confirm its suspicions that the person — people within the debtor's operation are — were involved in this, it could lead to substantial funds that would be recovered for creditors.

THE COURT: Okay. Because what I was going to ask

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THE COURT:

Okay.

MR. ASSAD: So, yeah, I think in all likelihood,

the California John Does will probably not be identified --

THE COURT: Okay. 1

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MR. ASSAD: -- but they probably aren't the important characters in the case.

THE COURT: Got it.

All right. So that's that one. Is there another one that's on?

> The --MR. ASSAD:

THE COURT: No, I don't think -- I think those are the only adversaries for the today.

MR. ASSAD: Oh, yes, the only adversaries.

I think there was Number 2 on the list was the original confirmation --

THE COURT: The original confirmation, right, which is 3/27 now, because of the -- is that what it is?

MR. ASSAD: I think 3/27 is the deadline --

THE COURT: Oh, that's the deadline.

MR. ASSAD: -- and then two weeks after that is the confirmation hearing. And I can provide a status update on that if the Court would like. And I believe Mr. Adams is on, as well.

THE COURT: Yes, Mr. Adams, I'm sorry, I have not involved you at all until now.

MR. ADAMS: That's all right.

Good morning, Your Honor. Dave Adams for the U.S. This is the one matter that I'm particularly

1 interested in, so... 2 THE COURT: Okay. So tell me what's going on 3 with, I guess, Penske, at this point, is the sole objector, given that Penn Jersey is no longer. 4 MR. ASSAD: The Penske claim --5 THE COURT: Uh-huh. 6 7 MR. ASSAD: -- or the Penske objection --8 THE COURT: Uh-huh. MR. ASSAD: -- I've read briefly, but haven't 9 delved into directly yet, because there've been a few other 10 more immediate issues. It's now that I have a few things out 11 of the way, I intend to look at it more closely --12 13 THE COURT: Okay. MR. ASSAD: -- over the next few days. 14 But with respect to the vote, I did calculate 15 things yesterday and -- because I did discuss with -- I spoke 16 yesterday with the Subchapter V Trustee just to update him, 17 as well -- and the vote is close. Right now, there are --18 THE COURT: Well, the vote goes until the 20th, 19 right? 20 21 MR. ASSAD: Yes. Okay. Go ahead. 22 THE COURT: MR. ASSAD: So I was just going to say the vote 23

is -- there needs to be a majority of quantity and value of

the claims. So at this time, a majority of the value of the

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under (b) --

claims has voted in favor of the plan and I just need six more votes in quantity to reach the threshold. So we're very close to obtaining a consensual plan in this case.

THE COURT: Okay. Mr. Adams, do you have issues with anything going on in this case, other than the fact that we're pushing it?

MR. ADAMS: I do not, Your Honor. Thank you.

THE COURT: Okay. I'm just looking to see -- I don't know if we actually did set up a new confirmation after we set the 20th as the new voting deadline, so...

MR. ASSAD: If I may? The Court's order did state a date, but I don't believe it's been continued in the CMECF system.

THE COURT: Okay. All right.

Yeah, I don't -- let's see. All right. I'll take a look at that and if it has not -- I don't see an order and that just may have been an oversight. So if that's true, then I will get one on the docket.

But, presumably, it would be the four -MR. ASSAD: Whichever order it was that extended
the deadlines, my proposed order extended the deadline for
voting and also for objections and election to proceed

THE COURT: Yes.

MR. ASSAD: -- and also extend the date, as well.

24 THE COURT: The confirmation is March 27th, you're 1 We just didn't put it in the -- okay -- in the 2 system. It is the 27th, I believe, at 9:30. It's just not 3 on the calendar yet. Okay. I'll just make sure that that 4 5 happens. MR. ASSAD: What is the -- are you looking at the 6 7 order, Your Honor? THE COURT: So, I'm looking at the order. 8 looks like it -- yeah, so it extended plan voting to 9 the 20th, extended 1111(b) to the 20th, and objections to the 10 plan by the 20th, but with confirmation on the 27th. 11 MR. ASSAD: Okay. So I was two weeks behind in 12 my --13 So I will make sure that it gets THE COURT: Yes. 14 15 on the calendar, as well. MR. ASSAD: I miss flying, so --16 THE COURT: Somehow we've -- yes, it's just --17 yes, which is good. It's moving forward. 18 All right. Well, presumably, you're working on 19 20 votes and Penske at this point. Mr. Adams, do you have -- I'm sorry -- do you have 21 anything else to add? I thought you just came up on my 22

screen and I thought, well, maybe... MR. ADAMS: No, Your Honor. Thank you.

THE COURT: Okay. All right.

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25 So we'll leave it on for the 27th, and between now 1 2 and then, good luck. Thank you. 3 MR. ASSAD: THE COURT: All right. Thanks. 4 5 And you are excused. 6 MR. ASSAD: Thank you. 7 THE COURT: I think that's it. MR. ASSAD: Can I ask the Court, what's the secret 8 for not coming to court? I'm only -- I'm always the only one 9 here, but I see there's always a full list. 10 THE COURT: Everyone -- I guess everyone, but you, 11 decides that they don't want to come, so they do everything 12 in their power to stipulate or continue or whatever -- yes. 13 MR. ASSAD: Well, thank you, Your Honor. 14 THE COURT: All right. 15 16 (Proceedings concluded at 10:00 a.m.) 17 18 19 20 21 22 23 24 25

<u>CERTIFICATION</u>

I certify that the foregoing is a correct transcript from the electronic sound recording of the proceedings in the above-entitled matter to the best of my knowledge and ability.

/s/ William J. Garling

March 14, 2024

|| William J. Garling, CET-543

Certified Court Transcriptionist

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